

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 6767

BILL NUMBER: HB 1903

DATE PREPARED: Dec 27, 2000

BILL AMENDED:

SUBJECT: Property Tax Deduction for Veterans.

FISCAL ANALYST: Bob Sigalow

PHONE NUMBER: 232-9859

FUNDS AFFECTED: **GENERAL**
 X DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill extends eligibility for the property tax deduction for World War I veterans and surviving spouses to all veterans who serve in the United States armed forces in any war or perform equally hazardous duty.

Effective Date: January 1, 2002.

Explanation of State Expenditures:

Explanation of State Revenues: The State levies a tax rate for State fair and State forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds. The revenue reduction is estimated at about \$83,000.

Explanation of Local Expenditures:

Explanation of Local Revenues: Under current law, WWI veterans or their surviving spouses may receive an assessed value (AV) deduction on their principal residence equal to \$3,000 if the assessed value is no greater than \$26,000. Because of a change in the definition of assessed value that will take effect with the 2001 payable 2002 tax year, the current deduction will be equal to \$9,000 AV and the property AV limit will be \$78,000. These scheduled changes do not affect final tax bills in any way. For clarity, assessed values and tax rates in this estimate will be expressed in 2002 terms.

This bill would allow a veteran (or surviving spouse) of any war or hazardous duty assignment who received an other than honorable discharge to receive the \$9,000 AV deduction against the AV of their principal residence. The \$78,000 AV limit on the residence would continue to apply.

According to the Census Bureau, there were approximately 456,000 veterans from Indiana who served in

WWI, the Korean Conflict, Viet Nam, or the Persian Gulf. Approximately 429,100 of these veterans are still living. However, because a surviving spouse may claim the deduction, this analysis will consider the 456,000 veterans who served as the base.

According to data obtained from the Census Bureau 70.25% of occupied housing units in Indiana are owner-occupied. Using additional Census data it was estimated that 86.6% of homes are currently assessed at or under \$78,000 AV (2002 terms). When these two qualifying percentages are applied to the 456,000 veterans, an estimate of 277,400 qualifying veterans is produced. The potential additional deduction under this bill is estimated at \$2.5 B AV.

Additional deductions reduce the assessed value tax base. This causes a shift of the property tax burden from the taxpayers receiving the deductions to all taxpayers in the form of an increased tax rate. A \$2.5 B reduction in assessed value would cause an estimated \$0.0428 increase in the statewide average net tax rate in CY 2002. This translates into a property tax shift of about \$75 M.

Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

State Agencies Affected: State Board of Tax Commissioners.

Local Agencies Affected: County Auditors.

Information Sources: Jon Brinkley, Indiana Department of Veterans Affairs (232-3919); Local Government Database; U.S. Dept. of Commerce, Bureau of the Census.